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# Statement of the U.S. Chamber of Commerce

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**ON: THE NEED FOR COMPREHENSIVE TAX REFORM**

**TO: THE HOUSE COMMITTEE ON WAYS AND MEANS**

**DATE: APRIL 21, 2011**

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The Chamber's mission is to advance human progress through an economic,  
political and social system based on individual freedom,  
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region.

The Chamber's members are businesses of all sizes. Our membership consists of small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are cognizant of the problems and challenges facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 105 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

## **INTRODUCTION**

The U.S. Chamber of Commerce thanks Chairman Camp and Ranking Member Levin for the opportunity to comment on how the burdens placed on individuals and families by the federal tax code<sup>1</sup> demonstrate the need for comprehensive tax reform. It is important for the Committee to consider the challenges individuals face in dealing with the tax code. In that regard, the Committee should pay particular attention to the important role flow-through businesses play in the economic health of the United States as the Committee evaluates the need for comprehensive tax reform.

## **THE CASE FOR COMPREHENSIVE REFORM**

Some proponents of tax reform recently have suggested that corporate tax reform be undertaken before focusing on individual tax reform. This approach is problematic because it ignores the impact of corporate tax reform on businesses that operate in pass-through form and, thus, remit tax under the individual code.

According to a recent study by Ernst & Young, more than 90 percent of businesses in the United States are organized as flow-through entities.<sup>2</sup> That study also found that individual owners of flow-through entities paid 44 percent of all federal business income taxes between 2004 and 2008 and, moreover, that flow-through businesses employ 54 percent of the private sector work force in the United States.<sup>3</sup> Thus, flow-through businesses are a critical source of job creation and innovation in the United States.

There appears to be widespread agreement in Congress that the 35 percent corporate income tax rate is too high and places U.S.-based worldwide corporations at a competitive disadvantage in the world marketplace. Advocates for corporate reform have argued for a rate reduction to as low as 20%. In order to pay for a corporate rate reduction, some have proposed eliminating or limiting business tax expenditures such as accelerated depreciation.

Lowering the corporate rate by eliminating business tax expenditures could cause economic hardship for flow-through businesses. Currently, flow-through businesses receive the benefit of the same business tax expenditures that are available to corporations. In addition, the top income tax rate for the individual owners of flow-throughs currently is the same as the top corporate rate, 35 percent. Thus, in terms of the rate and the availability of business tax expenditures, the tax code generally treats corporations and flow-through businesses the same.

If corporate reform is undertaken separately from individual reform, flow-through entities could lose the benefit of business tax expenditures without receiving the benefit of a corresponding rate reduction. The Ernst & Young study indicates that corporate tax reform that

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<sup>1</sup> All references to the “tax code” are to the Internal Revenue Code of 1986, as amended.

<sup>2</sup> Carroll and Prante, “The Flow-Through Business Sector and Tax Reform,” April 2011, available at <http://www.s-corp.org/wp-content/uploads/2011/04/Flow-Through-Report-Final-2011-04-08.pdf>.

<sup>3</sup> Id.

lowers the corporate rate and eliminates business tax expenditures would increase the income taxes paid by individual owners of flow-through businesses, on average, by 8 percent or \$27 billion annually from 2010 through 2014.<sup>4</sup>

Thus, corporate tax reform could have a significant detrimental impact to flow through businesses which in turn could have a negative impact on jobs and the overall economy. For these reasons, the Chamber prefers that Congress pass comprehensive tax reform legislation that addresses both the corporate and individual tax code.

## **CONCLUSION**

The Chamber thanks the Committee for the opportunity to comment on how the tax code's burdens on individuals and families demonstrate the need for comprehensive reform. As the Committee considers tax reform, the importance of, and challenges facing, the individual owners of pass-through entities must be given the utmost consideration to ensure tax reform allows these businesses to grow, compete and innovate. We look forward to working with the Committee on this vital issue.

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<sup>4</sup> Id.